

Kingdom of Saudi Arabia
Saudi Arabian Monetary Agency
Research and Statistics Department



Economic Developments
Third Quarter of 2004

November 2004

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Latest monetary, banking and financial data of SAMA's Quarterly Statistical Bulletin indicate the prospects for continued growth of the Saudi economy during the third quarter of 2004. Money supply increased due to a rise in bank deposits. Bank claims on the government and private sectors grew. The performance of the Saudi Stock Exchange was enhanced. Crude oil prices in world markets continued to rise. Some economic and banking regulatory and legislative decisions and circulars, aimed at invigorating the banking business and boosting the growth of the domestic economy, were also issued. The following is a review of the most prominent monetary, banking and financial developments during the third quarter of 2004.

First: Monetary Developments

Broad money (M3) rose by 2.3 percent (Rls 10.0 billion) to Rls 451.9 billion during the third quarter of 2004 compared to an increase of 2.9 percent (Rls 12.5 billion) during the second quarter of the current year.

The bulk of the rise in M3 was accounted for by bank deposits which increased by 110.3 percent. In contrast, currency outside banks fell by 10.3 percent. An analysis of developments in money supplies (M1) and (M2) indicates that M1 rose by 0.3 percent (Rls 0.7 billion) to Rls 243.4 billion compared to a rise of 1.6 percent (Rls 3.8 billion) during the preceding quarter of the same year. Thus, the increase in M1 constituted 7.4 percent of the total increase in M3. M1 represented 53.9 percent of aggregate money supply (M3) at the end of September 2004, about the same as at the end of the same month of the preceding year. M2 rose by 3.2 percent (Rls 11.6 billion) to Rls 369.5 billion, or 81.8 percent of aggregate money supply (M3), compared to a growth of 2.1 percent (Rls 7.5 billion) during the preceding quarter of the same year. The rise in M2 over M1 was caused by an increase of 9.4 percent (Rls 10.8 billion) in time and savings deposits. This signified a shift to time and savings deposits as a result of higher rates of interest on such deposits.

Second: Monetary Policy

During the third quarter of 2004, SAMA continued to pursue an appropriate monetary policy supporting domestic economic growth through providing adequate liquidity to all economic sectors and coping with global economic and financial developments. SAMA raised the official Repo rate and reverse Repo rate (ORR and RRR) twice during the third quarter of 2004 by 50 and 75 basis points to 2.0 percent and 1.75 percent respectively. The average value of repurchase agreements (Repo) per day stood at Rls 1,262 million during the quarter under study, while that of reverse repurchase agreements (Reverse Repo) was Rls 2,271 million.

Inter-bank interest rates recorded a small rise during the third quarter of 2004. The three-month inter-bank interest rate (SIBOR) increased from 2.02 percent at the end of the second quarter to 2.22 percent at the end of the third quarter. The differential between the Riyal and the Dollar interest rates on three-month deposits went down from 40 basis points to 20 basis points at the end of September.

As regards the public debt, SAMA, on behalf of the Ministry of Finance, offered during the third quarter of 2004 one issue of government development bonds (GDB) in July. SAMA floated the same issue (Tap Issue) again through auction to commercial banks in August and September. It also offered three issues of floating rate notes, in addition to treasury bills issued weekly.

Third: Developments in Commercial Banks' Activity

According to data of the Consolidated Financial Position of Commercial Banks at the end of the third quarter of 2004, commercial banks recorded further improvement in their performance. Their total assets rose by 3.9 percent (Rls 23.2 billion) to Rls 613.9 billion compared to an increase of 2.0 percent (Rls 11.5 billion) during the preceding quarter of the current year.

3.1 Bank deposits

Total bank deposits went up by 2.9 percent (Rls 11.1 billion) to Rls 395.9 billion during the third quarter of 2004 compared to a larger increase of 3.2 percent (Rls 12.1 billion) during the second quarter of the year. The ratio of total deposits to

the total consolidated financial position of commercial banks stood at 64.5 percent at the end of September 2004 compared to 64.4 percent at the end of same month of 2003.

A classification of deposits by sector enhanced the prospects of the growth of the domestic private sector. Deposits of the private sector rose by 1.5 percent (Rls 5.0 billion) during the quarter under study compared to a higher growth of 3.7 percent (Rls 11.5 billion) during the preceding quarter of the current year. Deposits of the public sector also grew by 10.1 percent (Rls 6.1 billion) compared to an increase of 0.8 percent (Rls 0.5 billion) in the second quarter of 2004.

A breakdown of bank deposits by type shows that demand deposits increased by 1.0 percent (Rls 1.8 billion) during the third quarter of 2004 compared to a rise of 1.9 percent (Rls 3.4 billion) in the second quarter of 2004. Time and savings deposits also grew by 9.4 percent (Rls 10.8 billion) compared to a rise of 3.3 percent (Rls 3.7 billion) during the second quarter of the current year. Other quasi-monetary deposits dropped by 1.8 percent (Rls 1.5 billion) compared to an increase of 6.3 percent (Rls 5.0 billion) in the second quarter of 2004.

An analysis of deposits by currency indicates that domestic currency deposits accounted for the highest percentage of increase, rising by 4.1 percent (Rls 12.8 billion) compared to a lower rise of 2.1 percent (Rls 6.4 billion) during the preceding quarter of the same year. Foreign currency deposits also went down by 2.4 percent (Rls 1.7 billion) compared to a growth of 8.7 percent (Rls 5.7 billion) during the second quarter of 2004.

3.2 Credit and Investment Activity of Banks

In the area of commercial banks' credit and investment activity in the public and private sectors, total bank claims on both sectors rose during the third quarter of 2004 by 5.1 percent (Rls 22.6 billion) to Rls 469.9 billion compared to an increase of 4.7 percent (Rls 20.1 billion) in the preceding quarter of the current year. Such expansion in the activity of banks suggests the prospects of continued growth of the Saudi economy at good rates during the period. These claims constituted 118.7 percent of total deposits at the end of September 2004 compared to 114.8 percent at the end of September 2003.

Developments by sectors indicate that total bank claims on the private sector went up by 9.1 percent (Rls 24.2 billion) during the third quarter of 2004 compared to a growth of 10.7 percent (Rls 25.8 billion) during the preceding quarter of the current year, constituting 73.6 percent of total deposits at the end of September 2004 compared to 64.0 percent at the end of September 2003. In contrast, total bank claims on the public sector (loans to public institutions and investments in government securities) went down by 0.8 percent (Rls 1.4 billion) compared to a larger fall of 3.3 percent (Rls 6.1 billion) during the second quarter of the same year. Total bank claims on the public sector represented 44.9 percent of total deposits at the end of September 2004 compared to 50.8 percent at the end of September 2003.

A review of bank credit according to maturity shows that short-term credit (less than one year) rose by 7.1 percent (Rls 11.9 billion) compared to a rise of 10.1 percent (Rls 15.5 billion) during the second quarter of the same year. Long-term credit (for more than three years) increased by 17.2 percent (Rls 12.6 billion) compared to an increase of 9.1 percent (Rls 6.1 billion) in the preceding quarter of the same year. On the other hand, medium term credit (for 1 to 3 years) fell by 3.6 percent (Rls 1.6 billion) compared to a rise of 12.0 percent (Rls 4.7 billion) in the second quarter of the current year.

A breakdown of bank credit by economic activity during the third quarter of 2004 indicates that financing for "other" purposes (the bulk of these were loans to individuals) rose by Rls 12.1 billion to Rls 114.8 billion compared to a rise of Rls 8.0 billion during the same quarter of the preceding year. Bank credit for "finance" purposes increased by Rls 5.3 billion to Rls 26.4 billion against a growth of Rls 3.2 billion in the same quarter of the preceding year. Credit for "commerce" rose by Rls 3.1 billion to Rls 55.5 billion compared to an increase of Rls 1.3 billion during the same quarter of the preceding year. Credit for "building and construction" increased by Rls 1.6 billion to Rls 24.7 billion against a fall of Rls 0.5 billion. Credit for "Services" purposes went up by Rls 0.2 billion to Rls 11.7 billion compared to a rise of Rls 0.2 billion during the same quarter of the preceding year. Credit for "water, electricity and other services" went up by Rls 0.8 billion to Rls 3.4 billion compared to a rise of Rls 0.1 billion during the same quarter of the preceding year. Credit for "agriculture and fishing" grew by Rls 0.1 billion to Rls 3.4 billion compared to a

growth of Rls 0.2 billion during the same quarter of the preceding year. Credit for "transport and communications" dropped by Rls 0.4 billion to Rls 11.7 billion compared to a fall of Rls 1.1 billion during the same period of the preceding year. In contrast, credit for "government and quasi-government sectors" went down by Rls 0.2 billion to Rls 26.9 billion against a growth of Rls 0.1 billion during the same period of the preceding year. Credit for "manufacturing and processing" dropped by Rls 0.1 billion to Rls 28.9 billion against a decline of Rls 0.3 billion in the same quarter of 2003.

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks rose during the third quarter of 2004 by 0.8 percent (Rls 0.7 billion) to Rls 90.0 billion against a decline of 3.0 percent (Rls 2.8 billion) during the second quarter of 2004. Their total foreign liabilities also increased by 15.5 percent (Rls 6.5 billion) to Rls 48.1 billion against a decline of 6.9 percent (Rls 3.1 billion) in the second quarter of 2004. Thus, their net foreign assets decreased by 12.1 percent (Rls 5.8 billion) to Rls 41.9 billion compared to a growth of 0.6 percent (Rls 0.3 billion) during the second quarter of 2004.

3.4 Reserves, Capital, Profits and Branches of Commercial Banks

Banks maintained their liquidity position during the third quarter of 2004, with total cash in vault and deposits with SAMA amounting to Rls 22.3 billion against a rise of 4.5 percent (Rls 1.0 billion) during the second quarter of 2004. The ratio of total reserves to total bank deposits at the end of September 2004 stood at 13.3 percent compared to 14.2 percent at the end of September 2003. Deposits with SAMA increased by Rls 0.6 billion while cash in vault declined by Rls 0.6 billion.

Banks' capital and reserves declined by Rls 1.1 billion, or 2.1 percent, to Rls 52.6 billion during the third quarter of 2004 compared to a rise of Rls 0.6 billion, or 1.1 percent in the preceding quarter of the same year. Capital adequacy of commercial banks according to Basel Standard stood at 17.8 percent at the end of September 2004. Banks also realized profits of Rls 4.3 billion during the third quarter of 2004, the same as in the preceding quarter of the same year.

The number of commercial banks' branches operating in the Kingdom rose to 1,212 at the end of the third quarter of 2004 from 1,209 at the end of the preceding quarter of the same year. The increase was accounted for by Central Province, 2 branches, and the Western Province, one branch.

3.5 Banking Technology

SAMA, in co-operation with commercial banks, has continued to develop banking technology in the Kingdom. As regards the e-commerce Trust Centre, the review of the operational policies has been completed. The Policy Approval Authority (PAA) is charged with the supervision of the review of such policies. Operational Policies and Procedures were applied. These constitute the general framework of the project and include: Certificate issue policies that determine the way for issuing certificates and how to deal with same and define the validity of each certificate, system management and operation policies, work continuation and post-crisis revival policies, and security policies compatible with the international Information Security Standard (BS 7799).

Two tests were conducted successfully. The first test was applied on Sadad project, for using digital certificates to ensure the security of the information pertaining to the project. Work is in progress on linking the Trust Centre with Sadad project. The second test involved using digital certificates to protect and code electronic mail for use by banks. The actual use of the centre was commenced to protect sensitive electronic messages. The project commenced its first three-month actual operation phase. It will become fully operational on the expiry of this phase at the beginning of 2005.

According to statistics of banking technology, the number of automatic teller machines (ATMs) increased by 61 to a total of 3,960 during the third quarter of 2004 compared to a rise of 130 in the same period of the preceding year. The number of ATM cards rose by 177 thousand to a total of 6.3 million compared to a rise of 187.9 thousand during the third quarter of the preceding year. Cash withdrawals through ATMs increased by Rls 0.2 billion to Rls 50.5 billion against a rise of Rls 2.9 billion during the same period of the preceding year. Cash withdrawals through Saudi Payments network (SPAN) went up by Rls 0.5 billion, and withdrawals through banks' network declined by Rls 0.2 billion. Total number

of transactions decreased by 0.5 million to 103.1 million compared to a rise of 4.9 million transactions in the third quarter of 2003.

The number of Points of Sale (POS) terminals increased during the third quarter of 2004 by 5,008 to a total of 34.1 thousand compared to a rise of 3,529 during the same quarter of the preceding year. The value of sales transactions made through POS terminals grew by Rls 688.9 million to Rls 6.2 billion.

The value of transactions executed through SARIE was down by Rls 216.9 billion to Rls 1,896.6 billion during the third quarter of 2004 compared to a rise of Rls 3.5 billion in the same quarter of 2003. The number of transactions also increased by 0.2 thousand to 318.8 thousand compared to a rise of 15.5 thousand during the same period of the preceding year.

With regard to clearing house operations, the number of clearing houses at all SAMA's branches in the Kingdom stood at 10, of which 3 are in Riyadh, Jeddah and Damman. Automated Clearing houses were developed in 2001 by introducing modern machines, which use light scanning technique for archiving copies of cheques instead of the microfilm technique used previously. The number of cheques (incoming and outgoing) cleared through clearing houses stood at 1.7 million during the third quarter of 2004, and their value totaled Rls 101.0 billion. The number of commercial and personal cheques stood at 1.5 million, with a total value of Rls 74.0 billion. The number of (certified) banks' cheques was 257.7 thousand, with a total value of Rls 27.0 billion.

Fourth: Share Market Developments

The domestic stock market continued its uptrend growth. At the end of the third quarter of 2004, the general share price index rose by 54.2 percent over its level in the same quarter of the preceding year to reach 6,594. The number of shares traded also increased by 35.3 percent to 2,960 million, and their value rose by 117.4 percent to Rls 512.1 billion. The number of transactions grew by 219.8 percent to 4.4 million. Market capitalization of shares went up by 57.7 percent to Rls 891 billion.

Fifth: Price Indices

During the third quarter of 2004, the general price index went up by 0.2 percent over its level during the same quarter of the preceding year. As a result, price indices of all food group increased by 2.7 percent, health care by 0.6 percent, other goods and services by 0.5 percent, and "housing" by 0.1 percent. In contrast, price indices of "fabrics, apparel and shoes" declined by 2.7 percent, "house furnishings" by 1.9 percent, "transport and communications" by 0.9 percent, and "education and entertainment" by 0.6 percent

Sixth: Supervisory and Control Developments during the Third Quarter of 2004

Domestic developments concerning opening of new branches of foreign banks in the Kingdom:

- International Emirates Bank commenced its operations in August 2004 in Riyadh. The branch of Kuwait National Bank will become operational in Jeddah soon. The licenses of the two banks were issued in the preceding year.

Seventh: Legislative and Regulatory Developments.

- (a) Royal Order No. a/114 was issued on 13/5/1425 (1-7- 2004) approving the constitution of the Securities and Exchange Commission Board. The Board consists of 5 members: the Chairman, Vice Chairman and three members.
- (b) Royal Order No. a/187 dated 16/5/1425H (4-7-2004) was issued providing for the reconstitution of the Supreme Economic Council and its Permanent Committee.
- (c) Royal Order No. a/111 dated 17/5/1425H (5-7-2004) was issued to reconstitute the Consultation Organ of the Supreme Economic Council.

- (d) Royal Order No. m/40 dated 2/7/1425H (18-8-2004) was issued approving the incorporation of a public Saudi joint-stock company under the name Telecommunications Union Company, of which the Saudi side will own 65 percent (20 percent of the company's shares owned by the Saudi Side will be floated for public subscription) and the Emirate side will own 35 percent. The Council of Ministers granted a license to the Emirates Telecommunications Company to establish and operate the second generation of a mobile network worth Rls 12.2 billion (\$ 3.2 billion), GSM technology. It also granted the Company a license worth US\$ 201.0 million for the third generation applying "G3" technology.
- (e) His Royal Highness, the Crown Prince, Deputy Premier and Commander of the National Guard announced his approval on 18/7/1425H (3-9-2004) to earmark Rls 41 billion out of the 2004 budget surplus for spending on projects related to the welfare of citizens. Of this amount, Rls 30 billion will be spent over a five-year period on social and economic sectors that directly affect the daily life of citizens in the various regions of the Kingdom (additional appropriations other than those made in the annual State budget for these sectors). The capital of the Saudi Credit Bank will be increased to more than Rls 3.0 billion and that of the Real Estate Development Fund will be raised by Rls 9.0 billion to meet increasing demand for loans to provide proper housing for citizens.
- (f) On 28/7/1425H (13-9-2004), the Council of Ministers approved the new law of Mining Investment after its approval by the Consultation Council. The new law comprises 61 Articles.